

June Newsletter

Legislative Wrap Up

This was no doubt a tough legislative session that ended with a 30 day special session. The budget passed by the legislature was balanced, that's the good news. However, that balance was not achieved without budget cuts and savings and in the end the legislature was able to close a \$4.9 billion dollar budget gap for the 2011-2013 biennium. This was a very unlikely session in which we saw a lot of partisan rancor but once you take away tax options and cut so much there is a lot less to disagree on.

The operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and the public schools. Apportionments to school districts, leases, goods and services, employee salaries and benefits, and medical assistance payments are typical operating expenses. About half of the operating budget is financed by the state general fund with the balance from federal and other dedicated funding sources.

Some reductions include:

- \$1.2 billion for I-728 and I-732.
- \$535 million in a general reduction to higher education institutions (in part, offset with assumed tuition increases).
- \$344 million from changes in how certain future pension benefits are calculated for Plan 1 retirees.
- \$215 million from elimination of the K-4 class size enhancement.
- \$179 million from a K-12 employee salary reduction.
- \$177 million from a 3 percent reduction in state employee salaries.
- \$129 million from changes to the Basic Health Plan.
- \$116 million in reduced Disability Lifeline cash grants (continuation of ESHB 1086 reduction). Note that remaining funding in the cash grant program for Disability Lifeline-Unemployable clients is used for a housing program focused on a similar population.
- \$97 million for reduced personal care hours for long term care and developmentally disabled clients.

However there were some cost saving measures implemented and investments in areas such as K-12, higher education and health care.

K-12 Education:

Funding is partially restored for lower class sizes in grades K-3 in high-poverty schools. The funding amount assumes class sizes of 24.1 in grades K-3 in schools which have free and reduced-price lunch eligible student populations exceeding 50 percent.

Implementation of the new prototypical school model has established new funding formulas for a number of programs, including General Apportionment, the Learning Assistance Program, the Highly Capable Program, and the Transitional Bilingual

Program.

Funding is also provided to continue phasing-in full-day kindergarten programs in high poverty schools. The funding supports approximately 21 percent of Kindergarten enrollment in the 2011-12 school year, and 22 percent of Kindergarten enrollment in the 2012-13 school year.

Higher Education:

Ongoing funding is provided for an additional 970 worker retraining slots each year of the biennium at community and technical colleges. Worker Retraining programs provide financial aid and other support services to jobless workers who need to change careers in order to re-enter the workforce.

Funding is also provided for the State Need Grant (SNG) and State Work Study (SWS) to offset the cost to recipients of resident undergraduate tuition increases of 16 percent per year at the University of Washington, Washington State University, and Western Washington University; 14 percent per year at Central Washington University and The Evergreen State College; 11 percent per year at Eastern Washington University; and 12 percent per year at the community and technical colleges.

Health Care:

Basic Health Stabilization: During the 2011-13 biennium, a portion of the Basic Health Plan (BHP) is funded using Tobacco Master Settlement Agreement revenues that otherwise would have been available for the Life Sciences Discovery Fund. Under the Federal Patient Protection and Affordable Care Act, current BHP clients will become eligible for Medicaid coverage with full federal funding in 2014.

Debt Commission:

As many of you may recall, my office did a study on our state's debt obligations, the importance of looking at our long term capital needs and our ability to fund them with state issued bonds. Most bonds issued by the state are "general obligations of the state", meaning the full faith, credit and taxing power of the state is pledged irrevocably to the payment of the bonds. The ability of the state to make this pledge is provided in the State Constitution. These general obligation bonds have the strongest security pledge the state can make and they carry the highest credit ratings of all the state's obligations.

This year a constitutional amendment was introduced that would limit the state debt limit from 9% to 7% of general state revenues, and while the legislation did not pass, legislators compromised and passed Senate Bill 5181, which formed the Commission on State Debt that is charged with recommending improvements in state debt policies and limitations to stabilize the debt capacity for sustainable and predictable capital budgets, to reduce the growth in debt service payments to a level that does not exceed the long-term growth in general fund expenditures, and to maintain and enhance the state's credit rating. Senate Bill 5181 requires that the commission include the following members: The State Treasurer, who shall chair the commission; the Director of the Office of Financial Management; two members of the Senate, appointed by the president of the senate; two members of the House of Representatives, appointed by the speaker of the house of representatives; six independent members, three appointed by the State Treasurer, and three appointed by the Governor.

The commission is charged with examining:

- Trends in all use of debt obligations;
- Major uses of debt and a comparison of the debt service and other operating budget expenditures that address similar policy objectives as the major uses of the debt; and
- Existing limitations and policies on the use of various kinds of debt and how those policies and limitations compare with other states with similar or higher credit ratings. The comparisons include an examination of relative debt burden and the relationship between state and local government debt in comparison states.

The legislation also requires the State Finance Committee, which consists of the State Treasurer, the Governor and the Lt. Governor, to recommend a working debt limit for the capital budget bond appropriations. The working debt limits will decrease in one-quarter percent increments until it reaches 7.75% by 2021. I will keep you posted as we begin this exciting and challenging process.

Bills of Note:

There were a couple of bills that once again exemplified that Washington State is a leader in helping Washington Families. Though there were many other important bills passed this session I wanted to highlight these two bills because they both go a long way in helping families through tough times.

Prize Link Savings: Studies done by the US Census Bureau of Economic in 2007 reported that the rate of personal savings has been steadily declining since the 1980's and in 2005 was negative for the first time since 1933. This means that fewer and fewer families have the financial capability to handle emergencies or have a safety net for retirement. Many financial institutions are often trying to identify and promote products that encourage families to save. One of the new innovative ways is the Prize-link savings. Michigan was the first to start this program with great success and now Washington is the second.

This session [Senate Bill 5232](#) was passed establishing a prize – link savings program in Washington. This program will allow financial institutions to create a program to link saving accounts, CD or other saving products with a promotional prize contest. Financial institutions will have the ability to determine what type of saving accounts and rules necessary in order to participate in the program; however no cost may be connected with participation other than participating in a savings program, such as minimum deposits.

The programs will include drawings that will award individuals small dollar prizes from \$100-\$1,000(approximately, each program varies) on a quarterly or monthly basis. Preliminary studies show that programs such as these do encourage families to save and financial intuitions generally see an increase in the number of saving accounts and higher average balances. This is another opportunity for Washington families to make fiscally responsible decisions and achieve financial stability.

Though the Washington legislation is crafted broad enough to include all financial institutions there are federal regulations that prohibit banks and community banks at this time from implementing this program so currently only credit unions will be able to participate, however we hope that this will be changed. I will keep you posted as this program is developed.

Foreclosure Fairness Act: Washington nationally was not in the top ten in terms of foreclosure rates in such as Nevada, however, as other states see their foreclosure rates decline Washington is experiencing an increase. In 2007 there were 7,000 filed foreclosures and in 2011 the number of foreclosures filed increased to 44,000-50,000 and unfortunately, we are not expected to see a decline for awhile. Families at risk of foreclosure should be afforded every opportunity to save their homes or at the very least find out what options they have if foreclosure is unavoidable. This session the legislature passed the Foreclosure Fairness Act [House Bill 1362](#). This act will allow families at risk of foreclosure to enter into a mediation process with their lenders. This will not guarantee that they will be able to stop foreclosure but it will provide homeowners the opportunity to sit down face to face with their lenders to figure out what options are available. Some of the requirements are:

Homeowners must contact a qualified housing counselor or legal service provider in order to start the mediation process. This is a very detailed program with many steps but some of the other provisions include:

- All mediators must meet the established qualification and training.
- Homeowner and financial lender must provide and bring all necessary documents.
- Homeowner and financial lender must each pay for the mediation process.
- Mediator must determine if mediation is done in good faith by both parties.

I will keep you posted as this program is developed.

Washington Asset Building Conference:

Last week the Washington Asset Building Coalition held their annual conference in Yakima Washington. My office was a proud sponsor and my Director of External Affairs served as a co-chair of the planning committee. It was a great event attended by many front line service providers who help Washington families build assets that enable them to survive emergency crisis, obtain homeownership, and send their children on to higher education.

Thank you to the many presenters and our special out of town speakers:

- City of San Francisco Treasurer José Cisneros, Bank On innovator and leader of the Financial Empowerment movement
- Dr. Crystal Hall, national expert on behavioral economics and professor at the University of Washington, Evans School of Public Affairs
- Karen Harris, Director of Asset Opportunities at the Sargent Shriver National Center on Poverty Law

- Expert trainer of financial educators Inger Guiffrida, Assets for Independence (AFI) training and technical assistance consultant

- Mariko Chang, Author of Shortchanged: Why Women Have Less Wealth and What Can Be Done About It and numerous reports related to the wealth gap particularly in relation to women and people of color

- Doorway to Dreams Savings Initiatives Specialist Sarika Abbi

Many special thanks goes out to the Washington Asset Building Coalition and the Department of Commerce for their hard work. We look forward to participating in the conference in the fall of 2012.

Until next time do keep in touch.